

Summer 2008 Resource Adequacy Outlook & Role Of CDWR Contracts

**Assembly Committee on Utilities and Commerce
Hon. Lloyd E. Levine, Chair**

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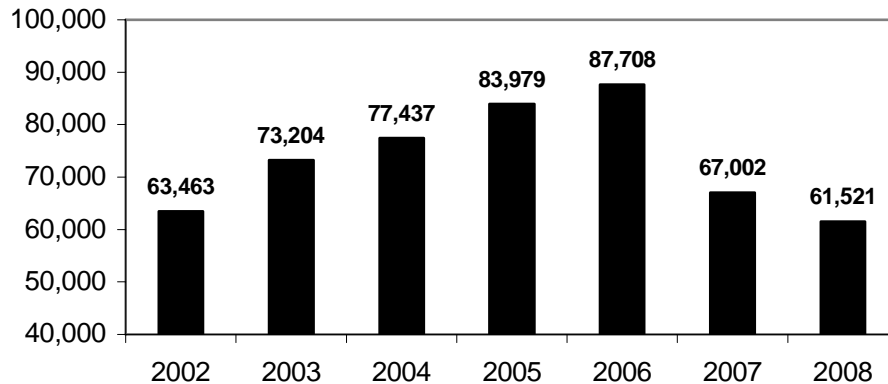
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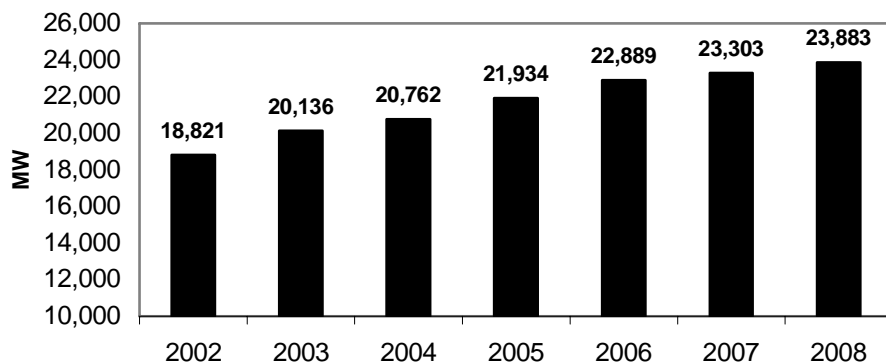
Robust Load Growth Has Slowed Due To Housing Slump

SCE Growth ²

New Meter Connections



Peak Demand



Robust growth during 2002-2006

- 4 of the 10 fastest growing counties in the nation ¹
- 385,000 meters added, avg. of 70,000/yr.
- Peak demand grew 5 %/yr between 2002 and 2006

Housing slump hits 2007 growth, 2008 forecast

- 67,000 new meters in 2007 and 61,500 forecast in '08
- Peak demand grew 1.8% in 2007 and 2.5% growth expected in '08

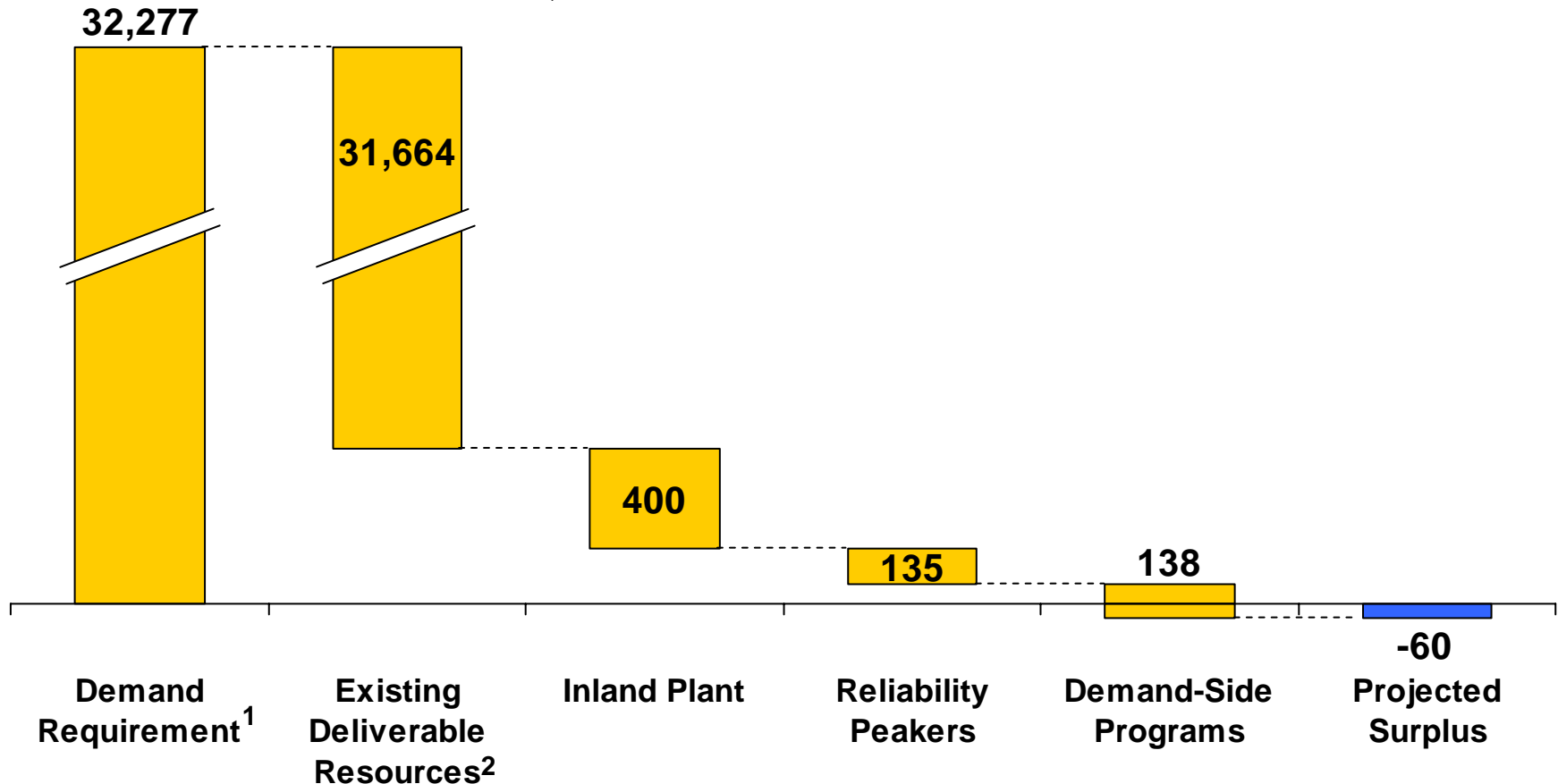
1) LA, Riverside, San Bernardino and Orange counties. US Census Bureau data, in terms of population increase between 2000 and 2005.

Moreno Valley, Rancho Cucamonga, Irvine, Lancaster and Fontana. US Census Bureau data, in terms of population percentage increase between 2004 and 2005.

2) New meter connections and peak demand in 2008 are forecasts.

2008 Southern California Supply and Demand Balance

MW, CAISO Zone SP-26



1. Adverse weather conditions; includes 5% operating reserves

2. Dependable capacity, including import capability and demand-side resource

SCE Activities To Ensure Future Resource Adequacy

- For Summer 2007...
 - Signed 10-year contract to refurbish and return to service 260 MW NRG Long Beach plant
 - Constructed 180 MWs of new peaking capacity in less than one year
 - Added 138 MWs of new AC cycling capacity
- For Summer 2009...
 - Completion of 5th peaking unit (45 MW)
- For Summer 2010...
 - Signed 455 MW contract with CPV Sentinel for new peaking capacity
 - Signed 490 MW contract for Blythe Energy to build a transmission line to interconnect their new CCGT plant to southern California grid
- San Onofre Nuclear Generating Station steam generator replacements in 2010 and 2011
- Will complete “Standard Track” procurement this March for up to 2,000 MW of new generation to be on-line by August 2013
- On-going activities
 - Renewables procurement to meet RPS
 - Implementation of programs to achieve CPUC’s Energy Efficiency and Demand Response goals

Role Of Allocated CDWR Contracts

- SCE is allocated 6 CDWR contracts
- Allocated CDWR contracts represent a significant part of SCE's 2008 supply
 - 22% of SCE's peak capacity requirements
 - 28% of SCE's energy needs

CDWR Contracts Allocated To SCE

Contract Name	Volume MW	Contract Start Date	Contract End Date	Unit Type	Contract Category
Bear Energy Product D	1,073	1/1/2008	12/31/2010	Gas-Fired Steam Plant	Dispatchable
Centennial	66.6	10/1/2001	9/30/2011	Wind Turbines	Must-Take
Colton Power	80	6/1/2003	10/31/2010	Gas-Fired Combustion Turbine	Dispatchable
High Desert	730 – 840	4/22/2003	1/21/2011	3 Gas-Fired Combustion Turbines and 1 Steam Turbine	Dispatchable
J Aron (Allegheny)	800	7/10/2003	12/31/2011	Market Source Energy	Must-Take
Sempra	1600 – 1900	1/1/2003	9/30/2011	Unit Specific (Gas Fired Turbines) or Market Source Energy	Must-Take

Considerations For Potential CDWR Contract Restructurings

- Objectives should be clear
- Utility input/involvement is vital to ensure customer value is preserved and supply needs can still be met
- Equity among the customers of all three IOU should be preserved
 - Because CDWR contract costs are spread across all three IOUs, but contracted power is delivered to only one IOU, any major contract change upsets the balance originally struck by the CPUC

Impact of Calpine Renegotiation on the Allocation of CDWR Costs to Customers

- The renegotiation of the Calpine contract significantly reduced the amount of electrical capacity and energy delivered to PG&E's customers
 - Original contract provided 1,000 MW around-the clock
 - New contract provides 180 MW of peaking energy
- PG&E submitted a request to the CPUC on January 18, 2008, to change the current allocation of DWR power charges to the utilities' customers
 - In the near term, PG&E wants the entire benefit of the reduced Calpine charges allocated to PG&E's customers to offset PG&E's replacement costs
 - In the long term, PG&E is requesting a new allocation methodology that will accommodate future DWR contract renegotiations and/or contract assignment to the utilities
 - SCE is concerned that a change in the cost allocation methodology beyond the impact of the Calpine contract may further disadvantage SCE's customers who have paid 14% higher DWR rates than PG&E and 20% higher DWR rates than SDG&E since 2003 (approximately \$1 billion more relative to DWR's average remittance rate)

Concerns Regarding Assignment Of Allocated CDWR Contracts

- A portion of contract fixed costs would be imputed as “debt” to the utility
- Because most contracts are more expensive than today’s market prices, sellers likely to require the utility to post large amounts of collateral
- Utility credit ratings and ability to raise funds can be adversely impacted
- Assignments that result in significant financial impacts to the utility will increase rates to customers
- CPUC review and pre-approval should be obtained

Final Comments On Contract Restructurings

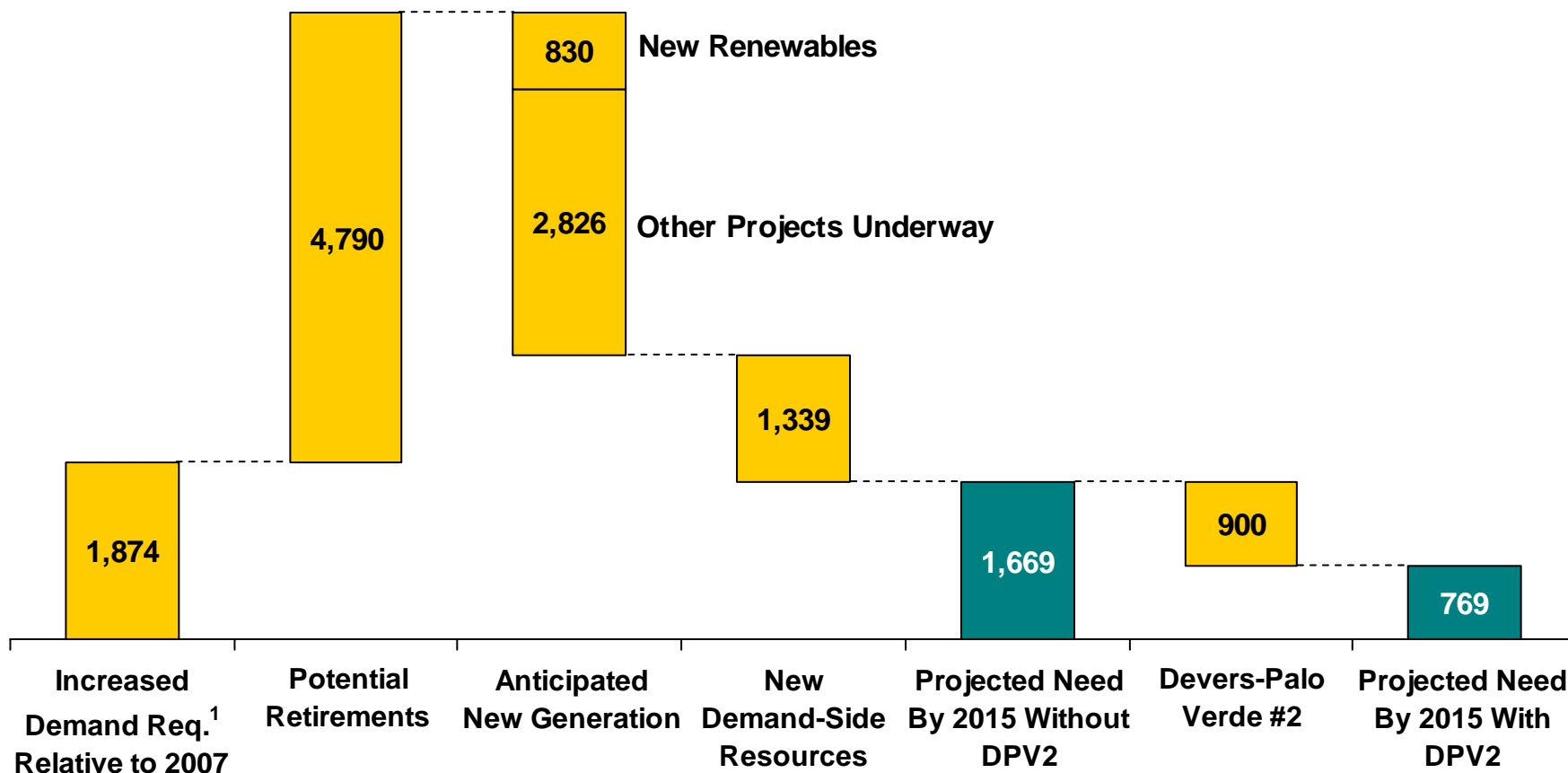
- Sellers likely to seek additional value as an inducement to change attractive contract terms
- Complex undertaking that should be done carefully; will take considerable time
- Utility resources likely to be significantly impacted
 - Supporting contract restructurings and conducting replacement procurement in addition to normal contracting activities
- Having to replace thousands of MWs of capacity or energy on short notice could increase costs significantly

Back-Up

What Does It Take To Ensure Resource Adequacy?

- Good long-term resource planning process, such as the CPUC's LTPP proceeding
 - The time lag between identification of need and new generation coming on-line is about 5-7 years
 - Ignoring real-world timelines and not planning out 5-7 years is very risky
 - Need to take huge uncertainties into account and plan conservatively
 - Large uncertainties include: load growth, retirements, future environmental regulations impacting generators, realization of Energy Efficiency/Demand Response and renewables goals, realization of transmission expansion plans, etc.
 - Just-in-time new generation development is very risky and expensive
 - Need to take into account future system needs – locational, wind integration requirements and costs for higher renewable targets, etc.
 - What is the appropriate planning criteria (frequency of outages)?
- Key decisions on responsibilities and cost allocation must be made
 - Who is responsible for each MW of identified new generation need?
 - Who pays for new generation developed for all grid users?
 - To date, CPUC decisions on these issues have been clear and timely
 - However, current framework is considered “transitional” and CPUC still considering permanent framework
 - SCE has proposed a centralized capacity market as the permanent framework
- Need to be cognizant of and address significant barriers to timely new generation development
 - Availability of air emissions offsets, need to reform transmission interconnection process, availability and cost escalation of labor and materials in global marketplace, new environmental regulations, etc.

1,700 MW Of New Generation Procurement Was Authorized For SCE In CPUC's LTPP To Address 2015 Need MW, SCE Portion of CAISO Zone SP-26



1. Includes PRM of 15%

Source: 2006 LTPP Final Decision; CEC Nov. Load Forecast